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No. [redacted]763

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1949

DEBOTHEZAT IMPELLER COMPANY, INC.,
Petitioner,

v.

AMERICAN MACHINE AND METALS, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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FEDERAL:

Judicial Code J. C. as Amended by the Act of February 13, 1925:
Section 240A 2

25 Am. Bar Ass'n Jour. 855, 28 U. S. C. A. 500 (Oct., 1939), 856 20

1 Moore, Federal Practice, page 817 20

IN THE

Supreme Court of the United States

OCTOBER TERM, 1949

No. 102

DEBOTHEZAT IMPELLER COMPANY, INC.,
Petitioner,
v.
AMERICAN MACHINE AND METALS, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

The petitioner prays that a writ of certiorari issue to review the judgment of the Court of Appeals for the Second Circuit entered in this case.

Opinions Below

The opinion of the District Court dismissing Petitioner's four equitable defenses before trial (208-239*) is reported at 82 F. Supp. 556.

The District Court rendered no written opinion after the trial, but the oral statements of the District Judge in deciding the case are set forth at pp. 381-418. The opinion of the Court of Appeals (pp. 628-45) is not yet reported officially, but appears in C. A. (2d) Docket #21487, decided January 17, 1950.

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* All undesignated references are to pages of the Record.

Jurisdiction

The judgment of the Circuit Court of Appeals was entered on January 17, 1950 (p. 646). The jurisdiction of this Court is invoked under § 240A of the Judicial Code J. C. as amended by the Act of February 13, 1925.

Questions Presented

I. Whether the written contract was ambiguous under New York law.

II. Whether one who has agreed to purchase a business including know-how, fundamental aerodynamical principles, formulae, experimental data, unique designs, customers, etc., upon cancelling the purchase agreement may continue to carry on the business and use all such material without further payments.

III. Whether assuming such rights of cancellation and continuance of the business would otherwise exist, they can be exercised without any restriction where the purchaser's inequitable conduct in violation of its contractual obligations would prevent the seller from resuming its business as agreed, thus causing the seller irreparable injury.

Statement of Case

The background of this litigation is succinctly stated in the opinion of the Court of Appeals as follows (with certain indicated additions):

"The appellant, DeBothezat Impeller Company, Inc.," (hereinafter called DeBothezat) "is a Delaware corporation which then was, and for some years previously had been, maufacturing and selling impeller blowers and related products for the movement of air in accordance with

the principles advocated by Mr. DeBothezat, a skilled engineer in this field. It was in part protected by United States patents covering his inventions. The business had not, however, been a financial success" (though its gross sales already exceeded $725,000, p. 174) "and arrangements were made for the appellee" (hereinafter called Metals, a large holding company which operated a number of different businesses, none of them in the ventilating field) "to take it over together with the plant, equipment, patents and all other assets of the appellant including unfinished products being manufactured, and conduct it at its own expense. Appellee was to pay the appellant certain stated percentages of the annual aggregate net sales, with a minimum monthly payment which was to be credited against the over-all amount as and when more became due. After a fifteen year period of operation, however, the appellee had the option to give a notice of three months that it elected to pay a sum, equaling the aggregate of all payments which had become due under the contract during the preceding six years, in full discharge of its liability to pay thereunder." [The above payments were to be "in no way diminished by reason of the expiration or invalidation of any Letters Patent granted hereunder or the rejection of any application therefor." (18).]

"There were provisions, written with careful attention to detail, to the effect that there should be transferred to the appellee all of the appellant's patents and patent applications and its plant, records, inventory and all of its equipment except some which was leased to the appellee. Appellee was given the right, however, to use and dispose of the plant equipment as it pleased and at the end of a stated period" (for six months) "to purchase the leased equipment at the nominal price of one dollar. Additional provisions required the appellee to feature the name 'DeBothezat' in the sale of the products made under the contract; 'to use its best efforts' to promote sales; and to furnish adequate audits of its operations.

"The contract ran for an indefinite time, but appellee was given the right to terminate it at any time after the expiration of one year by giving the appellant six months' notice of its election to do so and in the event of such termination appellee was required to transfer to the appellant all the patents it had obtained under the contract and also any other patents or patent applications it had for the contract products, providing the appellant reimbursed it for expenditures it had made in connection with their issuance or prosecution respectively. And for one year after such termination of the contract the appellant was given an exclusive license under them regardless of reimbursement. The appellee was also bound to convey and deliver to the appellant all of the plant and equipment, which it had on hand, that it had received from the appellant under the contract and to permit the appellant to inspect its books and records relating to the contract business and to make copies of them.

"The appellee took over the appellant's business and property connected therewith and has since been operating under the contract, which had been modified by mutual consent at times in ways not now material. It was contemplated when the contract was executed that the appellee would form a new corporation, having the name 'DeBothezat' in its title, to which the appellee would assign the contract and which would carry it out. This was done and for a while the new corporation did conduct the business pursuant to the contract but later that corporation was dissolved and merged into the appellee which has since conducted the business in a successful manner.

"In 1946, when the most valuable DeBothezat patent was about to expire" [actually, the basic patent did not expire till August 19, 1947 (146-151)], "the appellee took up with the appellant the question of its right to terminate the contract and then continue to make products the same as, or similar to, the contract products. The discussion which followed brought to the surface differences between the parties

as to the meaning of certain provisions in the contract relating to this subject and such attempts as were made to reconcile these differences failed.

"Metals then brought this action for a declaratory judgment that it could terminate the contract and continue the business exactly as before, provided it infringed no DeBothezat patents.

"DeBothezat contested this claim, and further interposed six equitable defenses and counterclaims: one of these was to reform the contract to prevent Metals' proposed action, if the contract as drawn were held to permit it; and four others which alleged that Metals had converted or destroyed the leased equipment, refused to furnish reasonably detailed audits, suppressed the DeBothezat name in conducting the business, and failed to use its best efforts to promote the business."

The District Court after a pre-trial conference dismissed the four equitable defenses (pp. 70-80; 82 F. Supp. 556), holding that even if Metals were a joint adventurer, and its misconduct had so impaired the good-will and facilities of DeBothezat as actually to prevent DeBothezat from resuming its fan business, enabling Metals to appropriate the whole business to its own use, and causing DeBothezat irreparable injury, nevertheless under the law of New York State the court had no power to stay Metals' exercise of an otherwise existing right to cancel and continue to carry on the fan business. Having dismissed the four defenses, it severed the four counterclaims alleging the same facts, and directed that they be separately tried later. The Court of Appeals affirmed. This holding is the subject of Point III, *infra*.

At the trial the District Court held there was no evidence to justify reformation; that the written contract unambiguously gave Metals the right to cancel and carry on the fan business; and that consequently no evidence outside the contract showing a contrary intention (of which there was

abundance) could be considered. The Court of Appeals' affirmance of this holding is the subject of Points I and II, *infra*.

Specification of Errors to be Urged

The Circuit Court of Appeals erred:

1. In holding that the written contract under the New York law unambiguously permitted Metals to continue in the fan business after cancelling the purchase agreement.

2. In holding that under New York law Metals could continue to use all the intangible assets which it acquired under the purchase agreement without further payments therefor, after cancelling the agreement.

3. In holding that under New York law, assuming such rights of cancellation and continuance of the business would otherwise exist, they can be exercised without any restriction where the purchaser's inequitable conduct in violation of its contractual obligations would prevent the seller from resuming its business as agreed, thus causing the seller irreparable injury.

POINT I

The decision below conflicts with New York law in not considering extraneous evidence to explain the meaning of an ambiguous contract.

1. In essence, Metals, a large holding company, managing many lines of business (none in the ventilating field), bought the DeBothezat fan business on the installment plan, with an option to accelerate payment and also the alternative option to cancel the purchase contract. The decisions below have held that Metals can cancel the purchase contract and continue the same fan business under its own name (which the Court of Appeals considered more like a

lease than a purchase, footnote 4, p. 639), without paying the remainder of the purchase price. They hold that the contract on its face unambiguously gives Metals this right, and so have refused to consider the abundant evidence in the record, from the beginning of the negotiation through the various drafts of the agreement to its final signature, and for twelve years thereafter, which proves beyond doubt that the parties intended that Metals could not keep the business without paying for it.

The contract naturally must be interpreted not from hindsight, but as it looked to the parties in 1934. DeBothezat was surrendering everything to Metals, not only its patents and all its equipment, but its customers' lists, plans, specifications and general know-how of the ventilating business. Its name, its patents, and its machinery it could get back in case of cancellation, but not the knowledge of its business and the impediment caused by the interruption of its operations for at least a year and a half. Under the terms of the contract (p. 16) Metals was obligated to pay to DeBothezat as a minimum only the sum of $413.33 a month (that is $5,000 a year), beginning one year after the date of the contract. By the same token (p. 18), at the end of one year Metals could have given notice of cancellation effective six months thereafter, so that all it was obligated to pay, both for having obtained a complete grasp of DeBothezat's specialized knowledge and experience in the fan business and for having caused DeBothezat to cease operations (p. 23) was $2,500.

Thus, if Metals' interpretation is correct, it could have virtually put DeBothezat out of business, learned how to operate the fan business itself, and then entered into competition with its unfortunate and almost helpless victim on the most favorable terms for a mere $2,500 payment. It seems inconceivable that DeBothezat would have been so foolish as to have given away its business (representing a cash investment of $180,000., p. 174), on such terms. Incidentally, however, it may be noted that if DeBothezat

did put itself in Metals' power to such an extent, it greatly emphasizes the quasi-fiduciary duties of Metals, which are discussed in Point III, *infra.*

One would suppose that only the clearest language could justify any Court in such an unusual and apparently unfair construction of a purchase contract, in the teeth of all the evidence outside the contract leading to a more reasonable interpretation. This is particularly true under New York law, which has held in a closely analogous case that "it would be unreasonable and inequitable to hold that the defendant might in form terminate its contract and then continue to manufacture radiators without the payment of any royalties such as it had agreed to pay." *Cammack* v. *Slattery & Bros., Inc.,* 241 N. Y. 39. See Point II, *infra.*

Amazingly enough, when the contract is examined, we find that there is *not one word in it which expressly permits Metals to continue the fan business after cancellation.* The only words on the subject (we claim) expressly negative any such right, but at the very least are ambiguous enough to let in explanatory proof.

These words are found in Paragraph THIRTEENTH of the contract, as follows:

> "THIRTEENTH: The DeBothezat Company hereby consents to the use of the name 'De Bothezat' in the corporate title of the New Company and to the sale of the Products thereof under the name 'DeBothezat.' Metals Corporation agrees that it will use the name 'De Bothezat' in its literature and sales promotion in connection therewith. Upon the termination of this agreement, the right of Metals Corporation or the assignee of its interest herein to use the name 'De Bothezat' for any purpose shall cease. Metals Corporation further agrees that the New Company will not engage in the manufacture and sale of any products which compete with the Products to be manufactured and sold hereunder."

DeBothezat claims that the last sentence applies (like the preceding one) "upon the termination of this agreement." Metals claims it applies only during the life of the agreement.

Obviously if the last two sentences were connected by a semi-colon instead of a period, Metals would have no right to continue this fan business after it terminates the contract. It would seem that a question which depends upon such a subtle nuance of punctuation would *per se* be ambiguous enough to make extraneous evidence of intent admissible. DeBothezat's interpretation seems further supported by the use of the words "further agrees" which appears to tie the two sentences together. The Court of Appeals at p. 634 of its opinion states that this argument "as will appear," is fine-spun, but it then proceeds to meet the argument "on its own plane"—conceding that its own counter-argument is fine-spun, as it certainly seems to be. But then the Court, saying that "we of course put no reliance on the parallel," states that the first three sentences of Paragraph THIRTEENTH above quoted are to be read together while the fourth sentence is unrelated to them. The only reason it gives for this interpretation, instead of reading the third and fourth sentences together, is that the agreement not to compete in the fourth sentence is limited to "the products to be manufactured and sold hereunder," thus, it infers, limiting the duration of the non-competitive agreement to the life of the contract, since thereafter no products could be sold and manufactured "under the contract." Here again the Court necessarily encounters another ambiguity, and it concedes that DeBothezat "rather ingeniously asserts that the words 'products to be manufactured and sold hereunder' mean simply the type or kind of products manufactured" during the contract. That DeBothezat's explanation is not only ingenious, but also correct, seems more likely from the fact that DeBothezat's own agreement not to compete which follows immediately

in Paragraph FOURTEENTH, applies expressly "during the life of this agreement" only.

Without pursuing further the rather tenuous arguments of the Court of Appeals, it seems clear that the net result (as the Court says of the position of the "non-competitive" sentence) "is wholly inconclusive." In such a situation, New York law requires that outside evidence be received to explain ambiguous language, particularly to avoid a construction which will give one party an unfair advantage over the other, *Fleischman* v. *Furgueson*, 223 N. Y. 235, 241, or to conform to their long-continued conduct. *Clark* v. *Carolina etc. Ry. Co.*, 225 N. Y. 589, 593.

DeBothezat's most vital evidence outside of the contract itself proving that the parties intended that Metals should not, if it cancelled, compete thereafter with DeBothezat, may be briefly summarized as follows:

1. An intercompany memorandum (pp. 467-8) from Metals' chief executive (then as now P. G. Mumford) to its executive vice-president, Holder, dated November 21, 1933, outlining the whole proposal, and in particular the three alternatives which Metals would have as to permanent continuation of the business or going out of it, says:

> "6. After the first year, we have an option to cancel this contract on six months notice, and to return the machinery taken over in good condition, less ordinary wear and tear.
>
> "7. 15-year option at six times average annual payments last five years.
>
> "8. If option not exercised we may continue indefinitely at one-half the former royalties without guarantee."

The "option" referred to in "8" is obviously that outlined in the preceding paragraph "7". Had Mumford intended to refer also to the option contained in paragraph "6" he would have used the plural instead of the singular.

Thus we find the same three choices which appear in all the drafts and in the final contract, that is, to cancel and go out of the fan business, to terminate payments after fifteen years with a commutation payment equal to six times average annual payments for the last five years, or a right to "continue indefinitely" at one-half rates if the commutation option is not exercised.

It was so clearly implied in "6" that it was unnecessary to spell it out, that if the option to cancel were exercised, Metals would have to stop selling fans, for otherwise the options offered by "6" and "8" would be to cancel the contract and continue the business without payment or to continue the business paying one-half of the former payments—in other words, an option to pay or not to pay for the same thing.

This memorandum of Mumford's also disposes of the point made in the opinion below that the purchase option involved a different set of circumstances and results from the cancellation option. Clearly, Mumford had in mind either the continuation or cessation of the business. The return of the DeBothezat name, patents, etc. were merely details subsequently worked out by the lawyers to effectuate the purpose of Mumford's memorandum.

2. In a memorandum from Holder to Mumford less than a year after the contract went into effect (pp. 590-1) Holder disclosed his understanding that payments had to be paid on all products, regardless of whether or not covered by the DeBothezat patents, and he said that if Metals did not want to do this, it would either have to negotiate a new contract with DeBothezat or go out of the fan business (p. 591).

This memorandum was given to Washburn by Holder and Mumford as representing Metals' views (p. 204).

3. No suggestion was ever made by Metals until February 18, 1946 (p. 159) that it could cancel the contract and still continue in the fan business even though it had been

making repeated efforts during the intervening twelve years (pp. 211-7, 472, 565-7, 592) to buy out DeBothezat at a bargain and was doing everything to beat down the price, including the drastic step of giving notice of cancellation, later withdrawn (p. 471).

4. As showing Metals' uncertainty as to the meaning of the contract, it is also significant that no notice of termination was given after the expiration in 1946 of what Metals describes as the last patent which it was using (pp. 432, 454).

5. Washburn's testimony (confirmed by Holder and not denied by Mumford) that just before the contract was signed, Mumford and Holder agreed with him that Metals must go out of the fan business if it cancelled, while apparently considered by Judge Coxe not sufficient to show a mistake justifying reformation, is strong evidence in interpreting any ambiguity.

6. Holder testified as to Metals' obligation to go out of the fan business if it cancelled (pp. 248-9):

> "There was also a question that if we decided to get out of the fan business, could we continue or not our main business, and the so-called escape clause that I mentioned before was that we wanted to feel that we could dip our toes in the water; if it felt too cold, we wouldn't swim; and if it felt right, we could swim, and that is exactly the position we took; if we wanted to stay in the fan business we would stay with DeBothezat, and if we didn't want to stay in the fan business we would get out of it."
>
> • • • •

(p. 309)

> "Q. Did you ever say to him [Washburn] during this period of negotiation that you were unwilling to agree not to continue in the fan business if you cancelled? A. No, it was my understanding that we would not continue in the fan business if it was cancelled.
>
> Q. Did you convey that idea to the other side? A. Yes."

We submit that the above proof would not only have supported a finding by the Trial Court in DeBothezat's favor, but that its cumulative effect would have almost compelled such a finding.

The Court of Appeals itself referred to outside evidence as its final argument (p. 641), this being the fact that there were seven drafts "before agreement was finally reached." Surely this has no bearing on the question of the ambiguity of the final agreement, and the court does not so assert. It uses this evidence as the basis for a conclusion that DeBothezat's attorneys were to blame for the ambiguity. Where one party has superior knowledge or skill that party may be chargeable with an ambiguity, but here both parties were represented by competent lawyers. Metals' attorneys should have been quite as careful to express clearly Metals' right to continue the purchased fan business without paying for it, under certain conditions, as DeBothezat's to express clearly the opposite intention.

What makes the Court's reliance on the seven drafts particularly unfair is that the wording of these successive drafts, as explained in the testimony, was an important element in proving that the parties intended precisely what DeBothezat now claims (pp. 192-202, 237-8).

Actually, one may infer from the opinion that the Court was influenced in its interpretation of this contract by its peculiar theory that individual wrong-doers should never be prevented from competing, wherever the innocent general public has that right. The opinion (p. 648) refers in support of this position to *Conmar Products Corp.* v. *Universal Slide Fastener Co., Inc.*, 172 F. 2d. 150, 156, which concedes (at p. 155) that this doctrine is peculiar to the Second Circuit and is in conflict with the Sixth and probably the Seventh Circuits, which hold that in patent cases "if before issue one has unlawfully obtained and used information which the specifications later disclose, he will not be free to continue to do so after issue; his wrong deprives him of

the right which he would otherwise have had as a member of the public." Whatever may be the correct rule as to patent cases (which this is not), there seems to be no doubt that the public interest would be best served in our case by having one DeBothezat fan business carried on, whether by DeBothezat or Metals, rather than having the business divided between two companies, both using Chinese copies of the other's products.

Further to bolster its construction, the Court of Appeals asserts (p. 642) that "the agreement not to compete" *might* be illegal, because "it would not be ancillary to the sale of, or reversion of a sold, business." But this seems to be arguing in a circle, for if DeBothezat is correct, the business would revert to it. The Court states (foot-note 4) that Metals "retains after termination its own factory, equipment, raw material, trade-marks, good-will, distribution facilities and the like" in support of its holding "that the contract here is more like a lease than a sale of a business." In the first place, whether it was a lease or a sale seems immaterial. And again, this seems to be a circular argument, for if DeBothezat is right, Metals would not retain the trade-marks, good-will, distribution facilities, or anything else relating to the fan business. Metals carries on a number of other businesses, with factory, good-will, trade-marks and distribution facilities which it of course retains. As to the fan equipment and raw materials, there is uncontradicted testimony that the reason why Metals would not agree to turn over its fan machinery and files bodily and gratis to DeBothezat was that it could use these in its other businesses, or sell the machinery second-hand (pp. 197, 198).

If the Court of Appeals meant that after turning back the fan business to DeBothezat, Metals could continue to use the trade-marks and good-will of that business, or sell to its customers, its holding would be again contrary to New York law, assuming a joint venture relationship between the parties is established (see opinion below at pp. 647, 648) *Von Bremen* v. *McMonnies*, 200 N. Y. 41.

That there is no question of the legality of the non-competitive clause seems clear from Restatement, Contracts, § 516:

> "(b) If a sale of the business is made to one who previously was not a competitor, it is obvious that there is no diminution of competition by the sale and the promise accompanying * * * Nor is the promise invalidated by the circumstance that nothing tangible is transferred so that the transaction amounts merely to the sale of good-will accompanied by a promise not to engage further in a competing occupation."

The Court's preoccupation with patent law and supposed unlawful restraint of competition permeates its whole opinion, and while it concedes that "here something more than a license agreement is involved" (p. 639), significantly the only holdings upon which it relies are patent cases. In reality, this case has nothing to do with patents or monopolies. It is purely a case where Metals is trying (with success, so far) to evade the final payment of approximately $175,000 for the purchase of the DeBothezat fan business. As P. G. Mumford blurted out unresponsively when called to the stand (345): "We think he" (DeBothezat) "is making enough money off us."

POINT II

The decision below conflicts with the law of New York State under which it would be unreasonable and inequitable to permit Metals in form to terminate its contract and then to continue in the same business without further payments.

The New York Court of Appeals in *Cammack* v. *Slattery & Bro., Inc.*, 241 N. Y. 39, 148 N. E. 781 (1925), held that such a construction of a contract would be "unreasonable" and "inequitable."

There the parties entered into a contract which provided for the manufacture by defendant of radiators which em-

bodied ideas and conformed to plans developed by the plaintiff. The defendant agreed to pay the plaintiff certain royalties on radiators thus manufactured and sold by it. There were no patents involved. The contract contained no termination date. Some six years after it had been entered into, the defendant gave written notice of termination, but nevertheless continued to manufacture in accordance with plaintiff's ideas and plans. The Court held unanimously (as had the lower courts) that, inasmuch as no expiration date was fixed by the contract, the defendant had the right to terminate at any time, but that its notice of cancellation was ineffectual because it continued to manufacture and sell the radiators and therefore did not, in fact, terminate the contract.

Hiscock, Ch. J., said (p. 45):

> "Under these circumstances this argument of defendant becomes quite academic because, of course, it would be unreasonable and inequitable to hold that the defendant might in form terminate its contract and then continue to manufacture radiators without the payment of any royalties such as it had agreed to pay."

The *Cammack* case has since been cited with approval by the New York Court of Appeals in *New York Tel. Co.* v. *Jamestown Tel. Corp.*, 282 N. Y. 365, 26 N. E. (2d) 295 (1940).

There, after the expiration of a contract, the parties continued to do business together. There was no dispute as to the liability of the defendant to make payment, for, as Lehman, Ch. J., said (p. 371):

> "Obligation to pay for benefits received is not denied by the defendant. The issue between the parties is whether the amount to be paid must be measured in accordance with the terms of the express contract or in accordance with an implied contract to pay the reasonable value of such benefits."

The case differs from the present case in that there each party continued (and, being public utilities, had to continue) performance after the expiration of the contract, while here the consideration moving from DeBothezat was substantially all given when the contract was entered into, and accordingly, on termination, Metals will have received everything for which it promised payment.

Lehman, Ch. J., in *New York Tel. Co.* v. *Jamestown Tel. Corp., supra,* distinguished the *Cammack* case on this ground. He said (pp. 373-4):

> "The obligation of a contract terminable at will to pay royalties for the right to manufacture an article, according to plans and designs of another person, continues until the contract is effectually terminated, and effective termination does not arise from mere notice of intention without relinquishment of benefits derived from the contract. In such case notice of intention is completely negatived by acts. Notice of intention to terminate a contract is an empty gesture where it appears that the intention is to terminate only the obligation imposed by the contract and not the right to benefits derived from the contract, for the contract gives no right of partial revocation."

Thus, the gross unreasonableness, or even the impossibility of a supposed alternative to pay or not to pay for what has been received is firmly established by the highest Court of the State of New York.

When the *Cammack* case was called to the attention of the trial judge, he admitted frankly, after reading it, that he did not "understand that case too well" (p. 404), and his subsequent statements seem to bear this out, as he could not seem to get doctrines peculiar to patent law out of his mind (pp. 405-8).

The Circuit Court of Appeals attempted to distinguish the *Cammack* case on the ground that because several *express* conditions applied on termination of the contract

here, no other condition would be implied, and also that Metals was expressly required to give back the original patents (all expired!) and any fan patents of its own (none being now essential (p. 616)).

The distinction seems unreal. For none of the express conditions are inconsistent with the implied *Cammack* covenant, but on the contrary are all aimed at facilitating the resumption of the fan business by DeBothezat, which is entirely consistent with its abandonment by Metals. It is ridiculous to suppose, for example, that if the *Cammack* agreement had expressly provided for termination at will by the grantee, or had further provided that if the grantee terminated, he should assign any patents he might have obtained on the radiators to the grantor, and should also supply a list of his customers, this would have changed the court's opinion that it was both *unreasonable* and *inequitable* to permit the grantee to continue making plaintiff's radiators without paying for them.

The New York law, as authoritatively laid down in *Cammack,* sees not even a hint of illegality in requiring the defendant to pay for what it uses, or else to give it up; it is not concerned whether Cammack's radiator arrangement was a lease or a sale, or with the fact (also referred to in the opinion below in footnote 4, p. 639) that the defendant "retains after termination its own factory, equipment, raw materials, trade marks, good will, distribution facilities and the like,"—of course, the *Cammack* rule would preclude retention of any trade marks or good will of the "contract business."

The opinion below seems wholly in conflict with New York Law in applying to this contract for the sale of a business, including principles, formulae and designs both patented and unpatented, a narrow rule of construction which requires that a restriction preventing former patentees from attacking a patent "be in such express and clear words that the intent could not be doubtful,"—quoted at

p. 639 from *Eskimo Pie Corp.* v. *National Ice Cream Co.* (C. A. 6) 26 F. 2d 901, 902, which the court thought "closely apposite." On the contrary, the New York law appears to be exactly the reverse, as applied to the sale of unpatented designs,—they cannot be used without compensation unless the agreement expressly provides otherwise.

The opinion below also errs in the opposite sense in its analysis of the *Cammack* decision. The latter does not "imply the condition upon termination of going out of the radiator business", but only of stopping the manufacture and sale of *the type of radiator it acquired from the plaintiff*. As applied here, the New York law evidently requires that even if DeBothezat had transferred to Metals merely unpatented and unpatentable designs of fans, instead of a business in which $180,000 in cash had been invested, and even if there were no provision whatever preventing Metals from competing with the DeBothezat fans, either during or after the contract, the New York courts would consider it "unreasonable and inequitable to hold that the defendant might in form terminate its contract and then continue to manufacture radiators without the payment of any royalties such as it had agreed to pay". It necessarily follows that if the manufacturer terminated its contract, it could continue in the radiator (or fan) business only with the limitation, not that it must refrain from *infringing upon valid patents owned by its grantor after such termination* [the meaningless language (p. 620) in the decree affirmed below, suggested in Metals' prayer for relief (p. 7) which applies equally as well to the public at large as to Metals] but that *it must refrain from using any designs, mathematical principles, theories or ideas, patented or otherwise, derived by it from DeBothezat.*

POINT III

The striking of the four equitable defenses was contrary to New York Law.

After Judge Ryan had held on August 12, 1949 (8 F. R. D. 306) that the validity of the four separate equitable defenses presented a serious legal issue which could not be determined on a motion to strike, it seems unusual that at a pre-trial conference held shortly thereafter, the same defenses should have been stricken without the appellant having had any opportunity whatever to examine the appellee before trial.

As stated in 1 Moore, Federal Practice, page 817:

> "While Rule 12 does to some extent provide for speedy disposition of certain matters preliminary to trial, it does not seem to have been contemplated that the court should ordinarily supplement Rule 12 by proceedings under Rule 16, which is quite apparently designated for use at a later stage in the litigation."

The same principle was more specifically stated by Judge Laws in 25 Am. Bar Ass'n Jour. 855, 28 U. S. C. A. 500 (Oct., 1939), at page 856.

> "It becomes obvious from what has been said that it is essential that a case should be substantially prepared for final trial prior to the time it is heard at pre-trial. This point cannot be too strongly stressed."

Judge Knox stated at the pre-trial conferences that in order to justify dismissal of the four equitable defenses, he must assume that the defendant could prove all facts and circumstances in any way relevant to these defenses. Accordingly, appellant submitted two memoranda outlining the scope of possible proof, much of which would have to be obtained from the pre-trial examination of the appellee.

Whether or not the 1934 contract permitted Metals to continue in the fan business after cancellation, there is no

doubt that DeBothezat was meant to have the right to resume that business. The four *equitable defenses* are based on the alternative that Metals would have the right to cancel and continue the fan business but for its unfair conduct directed toward impairing the ability of DeBothezat to resume the business in competition with Metals.

That the acts charged in these defenses would impair and might even destroy DeBothezat's capacity to resume operations, and thus cause irreparable injury, seems beyond question, and is conceded in the opinion below.

DeBothezat entrusted its property and going business to Metals, under a contract requiring it to use its best efforts to build up both the business and the DeBothezat name, to make reasonably detailed reports of its sales (which would enable DeBothezat to follow the trend of the business and make plans for the future accordingly), and to return the leased machinery in the event of cancellation.

DeBothezat informed Judge Knox that it expected to prove: (1) the destruction of the leased equipment; (2) the refusal of Metals to furnish the required information as to the sales of the various subdivisions of the business, so that DeBothezat could not plan in advance its campaign to reestablish its business along the most profitable lines, as contemplated by the contract; (3) Metals has gradually minimized the DeBothezat name, and finally, as to the largest single division of the business, suppressed it entirely, taking out a trade-mark for this division under the name "Fan-Pac," which Metals has extensively advertised, hoping to continue this largest division of the business for its own benefit on cancellation without the slightest interruption, and to exclude DeBothezat from its benefits; (4) instead of using its best efforts to promote DeBothezat sales, Metals has devoted a large part of the time and attention of its fan personnel to devising means of most effectively appropriating the entire fan business to its own benefit, and of preventing DeBothezat from re-entering the business.

It seems clear that the misuse of the "Fan-Pac" division alone might make the difference between the profitable resumption of the business by DeBothezat and bankruptcy. The combination of all the violations of duty would have a cumulative effect.

The injury to DeBothezat through loss of the chance of regaining its business (now selling over a million dollars a year) would be plainly irreparable, for it could not properly be compensated by damages, the amount of which would be speculative and difficult to prove.

The crux of the opinion below is its acceptance of the District Court's conclusion (p. 643) that it is the law of New York "that a wrongful breach prior to termination, and not, in itself causing irreparable injury, but causing such injury if the contract were to be terminated, can not defeat the right to terminate expressly granted in the contract".

This seems an extraordinarily antiquated view to be attributed to the New York courts, which have usually been in the forefront of the liberal extension of equitable powers to prevent injustice.

The opinion below admits that it can point to no New York case in any way supporting such a harsh doctrine (and none exist). And the court seems anxious to shun responsibility for such palpable injustice by implying that "considered as an independent question", it might "arrive at a contrary result". It tries to throw the onus on "what the courts of New York would do," but the attempt seems lame in the absence of a single New York authority in point.

The *Cammack* case, *supra,* gives a good indication of how any New York court would act in this case. The court there said (italics supplied): *"of course,* it would be unreasonable *and inequitable"* to permit defendant to exercise an otherwise absolute power to terminate, and continue to sell radiators without paying the agreed compensation.

In other words, the court held that the inequitable conduct of the defendant after giving notice of cancellation voided the notice. Can any one doubt that the same doctrine would apply to inequitable conduct prior to the notice?

As far back as 1890, New York's highest court recognized that an express and absolute power of termination is subject to equitable restrictions. *Lipman* v. *Niagara Fire Ins. Co.*, 121 N. Y. 454, 460, holds that "The privilege reserved by the" (fire insurance) "Company to terminate the policy on notice, cannot be exercised under the circumstances which would make it operate as a fraud on the insured, as in case of notice given pending an approaching conflagration, threatening to destroy the property insured." The *Lipman* case (recently cited with approval in *Friedman* v. *Connecticut General Life Ins. Co.*, 251 A. D. 292, leave to appeal denied, 275 N. Y. 649) is not so strong as ours, for the fire was not set by the insurance company, while here the corresponding circumstances making cancellation inequitable are due to Metals' own misconduct.

Thus clearly New York law does not make an "absolute power to terminate", whether implied or express, a shield for injustice. Cases holding that entirely collateral breaches of contract, not involving irreparable injury, do not bar the exercise of an absolute power to cancel the contract, seem to be wholly inapplicable to the present case, where the breaches are directly connected with the effect of cancellation, and were evidently part of a plan, which cancellation would consummate, to inflict irreparable injury upon DeBothezat by preventing the latter from resuming the fan business, and thus appropriating the entire business to Metals' own use.

What makes the decision of the court below on this point even harder to understand is its concession (p. 644) that under New York law Metals was probably a quasi-fiduciary for DeBothezat in conducting the business. It cites for this proposition *Selwyn & Co.* v. *Waller*, 212 N. Y. 507, 106 N. E. 321. Another case to the same effect is *May*

v. *Hettrick Bros.*, 181 A. D. 3. Nevertheless, the court below ruled that the misconduct of the quasi-fiduciary in wrongfully appropriating to itself alone the business which was the sole object of the trust, was completely beyond the control of a court of equity, once the joint relationship was ended.

The court said that DeBothezat might, before termination, enjoin Metals from suppressing the DeBothezat name and destroying its good-will, and might also get more detailed audits. But this seems rather cold comfort if (as must be assumed to justify striking the defenses) the suppression of the name, and the concealment of operations, had been going on for years, and the contract could be cancelled on six months' notice,—far too short a time to repair the damage.

It seems obvious that the court's proposed remedy would be a mere slap on the wrist, and would not in the least hinder Metals from accomplishing its unlawful end,—the appropriation of the whole fan business to its own use without the payment specified therefor in the contract. Assuming (as we must) that the court were convinced that Metals' scheme would prevent DeBothezat from resuming business at all, due to the wrongful suppression of its name over a long period of years, which could not be cured by a few months' enforced use before termination, the opinion below holds that New York law is powerless to prevent the theft of the joint business by the faithless fiduciary. And more than this, DeBothezat has been here stayed from pressing its counterclaims, so that as a practical matter even the pitifully inadequate relief suggested below as possible, has been wholly denied. For this extraordinary tenderness for fraud—on the alleged ground of public policy—the court cites *three Federal patent cases.*

The law of New York is in no way so impotent in dealing with inequitable conduct as has been hitherto held herein. One example of the way in which somewhat similar wrongdoing was dealt with is found in *Russell H. & I. M. Co.*

v. *Utica D. F. & T. Co.*, 195 N. Y. 54, 87 N. E. 788. This case was (curiously enough) relied upon in the District Court's opinion striking the defenses, but was not mentioned in the affirming opinion. There, due to evidence of defendant's wrongful acts committed after the pleadings were filed, the Court of Appeals affirmed a decree enjoining defendant "from further exercise of any of the rights in the *business, trade and good will* of the Russell staple puller," etc. An analogous decree in this case might enjoin Metals upon termination "from further exercise of any of the rights in the business, trade, good-will, and trademarks of its DeBothezat Fans Division." Such a decree (though less drastic than one preventing termination altogether, or prohibiting Metals from the fan field entirely) would effectively prevent Metals from carrying on the *DeBothezat fan business* (minus the name only) with fans which are described by Metals itself as "based on Dr. DeBothezat's original concepts" and "designs" (p. 408). It would not prevent Metals from starting a new fan business of its own, with entirely new designs and customers. Just which form of decree would adequately circumvent Metals' unlawful scheme on this point alone (quite apart from Points I and II, *supra*) would be for the court to decide, after weighing the evidence of Metals' misconduct. But it would certainly go further than the decree approved below, which merely adopted the innocuous concession in Metals' own complaint (p. 7) that it be restrained from "infringing upon valid patents owned" by DeBothezat,—a mild restraint to which every person in the United States is equally subject!

The opinion of Chief Judge Cardozo, writing for the unamimous court in *Meinhard* v. *Salmon*, 249 N. Y. 458, stressed the accountability of the manager of a joint venture to his inactive associate, with respect to an option which became available shortly before the joint venture terminated. The business opportunity which Metals is accused of misusing here, is the entire existing DeBothezat fan business.

The doctrine that the managing partner of a joint business can over a period of years unlawfully suppress the partnership name and substitute another, then dissolve the partnership and continue to run the stolen business as his own under the other name, without being subject to equitable restraint, has only to be stated to be denied. Yet that seems the clear implication of the decisions below, which in this respect again conflict with New York law.

The holdings below would establish (in the name of public policy!) a simple pattern of wrongdoing whereby large corporations like Metals could steal small businesses like DeBothezat's, with the acquiescence of the court, and even with their active help, as here, in enjoining the defrauded obligee from seeking equitable relief until the theft is securely consummated.

We respectfully submit that such a gravely unjust principle (or lack of principle), fraught with such serious anti-social consequences, is quite at variance with the settled law of New York State, and should not be approved even tacitly by the Supreme Court of the United States.

CONCLUSION

The petition for a writ of certiorari should be granted.

New York, April 1950.

Respectfully submitted,

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No. 763

IN THE

Supreme Court of the United States

October Term, 1949

DE BOTHEZAT IMPELLER COMPANY, INC.,

Petitioner,

v.

AMERICAN MACHINE AND METALS, INC.,

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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IN THE

Supreme Court of the United States

October Term, 1949

No. 763

DE BOTHEZAT IMPELLER COMPANY, INC.,

Petitioner,

v.

AMERICAN MACHINE AND METALS, INC.,

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Defendant seeks review of a unanimous judgment (A. N. HAND, CHASE and CLARK, *C.JJ.*) affirming a declaratory judgment (COXE, *D.J.*) construing a contract between these two parties.

No Reason Exists to Invoke the Jurisdiction of This Court

No constitutional or Federal question is involved. No important question of local law is presented. The decision concerns only these two private litigants.

The main issue is over the construction of a long contract executed in 1934. The contract expressly gives respondent an absolute right to terminate it on six months' notice. The question is whether, after termination, the

contract requires respondent to go out of the fan business for all time.

The contract was not a standard form in general use. It was specially prepared by the parties' counsel over months of negotiations. Its interpretation depends, basically, on its own particular language. The courts below, construing the contract in light of its detailed provisions, agreed that petitioner's specious arguments were without merit. That eminently correct conclusion involves no question of general interest.

Even less consequential is the subsidiary issue. Claiming that certain breaches occurred in the past, petitioner asked, in four counterclaims also labelled as "defenses," that respondent be compelled to pay stated damages and, in addition, be visited with a special, novel penalty. It argued that the contract should be rewritten to deprive respondent of the right of termination or of the right to make, after termination, unpatented goods which all the world is free to handle.

The courts below—following New York law, which concededly is controlling here—agreed that this astonishing claim finds no basis in the local law. No case cited by petitioner lends any support to its claim, which flies in the face of numerous local decisions. The point is utterly lacking both in merit and in general importance.

Review on writ of certiorari "will be granted only where there are *special* and *important* reasons therefor." Rule 38, par. 58.* Here there is no reason whatever for granting the writ—much less a "special" or "important" reason.

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* Italics are ours throughout unless otherwise stated.

Opinions Below

The opinion of the Court of Appeals (628-645)* is reported, 180 F. 2d 342. The trial court wrote no opinion but voiced his views during argument (377-420). The earlier opinion of the District Court, holding petitioner's four "defenses" insufficient (70-80), is reported, 82 F. Supp. 556.

Statement of Case

The Parties' Situation in 1934

Prior to the contract petitioner (sometimes called "De Bothezat") made and sold fans and ventilating equipment in part of a loft building in New York City (F7, 608).

Petitioner was practically unknown in the business (453). Its enterprise was a failure. From 1929 its gross sales—never over $174,000 a year—declined steadily, falling to only $58,000 in 1933 (F8, 608; 174). Its net loss rose to over $100,000 (F8, 608; 485).

When the contract was made, petitioner's operations had virtually ceased. It had only 6 unfinished orders on hand (35). It had long had only a skeleton force (F16, 610-611; 270).

While petitioner had some equipment and machinery, "in very bad shape" (279), its principal asset consisted

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* Unless otherwise stated, references in parentheses are to pages of the record. When preceded by F, they designate findings of the trial court; thus (F24, 613) denotes Finding 24, page 613 of the record.

of certain patents and patent applications (on which patents later issued), which we shall call the "DeBothezat patents." Actually they were quite limited in scope (148-150, 261-262), but petitioner thought them unequalled (Ex. V, not printed). Its products embodied, or were supposed to embody, these patented devices (F7, 608; 8, 97).

Despite intimations to the contrary (*e.g.*, Pet. Br., pp. 3, 6), respondent's organization was no stranger to the fan business in 1934. Its immediate predecessor was actively engaged in the fan business until 1931. Its subsidiaries were making and selling fans when the contract was signed (F6, 607; 282-283, 355-358).

The Contract of April 3, 1934

Under the contract (7-52) Metals (respondent) did *not* buy—or agree to buy—"the DeBothezat fan business on the installment plan" (Pet. Br., p. 6.). In fact, the "business" is not even mentioned in the agreement, doubtless because it was practically extinct.

The contract begins by referring to the DeBothezat patents (8). The very first paragraph provides for their qualified conveyance to Metals "subject to the conditions of this agreement" (9). One condition is that Metals must reconvey them on termination (19).

Certain "plant and equipment" was also assigned to Metals (12), with a covenant to reconvey it, if still in existence, on termination (19-20). Other "plant and equipment" was leased to Metals, with an option to buy it for $1 after July 1939 (13-14).

In exchange, Metals agreed among other things to pay petitioner royalties.[1] Royalties are paid not on profits but "net sales" (15-16). Petitioner bears no part of Metals' expenses or losses. Royalties have long exceeded the guaranteed annual minimum of $5,000. In recent years they have averaged about $30,000 annually. By the end of January 1949, they had aggregated $250,000 (F30, 615; 428).

Metals' Absolute Right to Terminate

Paragraph Tenth of the contract gives Metals the absolute right to terminate after the first year (F4, 607; 18-19):

> 'One year after the date hereof or at any time thereafter, Metals Corporation may give the De-Bothezat Company notice, in the manner hereinafter provided, of its intention to terminate this agreement, and six (6) months after the notice shall have been so given, this agreement . . . shall thereupon terminate and Metals Corporation shall not be liable for any payment under the provisions of Paragraph Eighth hereof [the royalty provisions] accruing after the period ending upon such termination."

Elaborate provisions govern the parties' rights after termination. As just seen, even though Metals makes articles on which royalties would formerly have been due, it has no contractual obligation to pay petitioner anything. In addition:

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[1] Although petitioner dislikes the word "royalties," the first amendment to the contract (prepared by petitioner in 1936) refers to the "minimum royalty" and the "royalty payments" (36). Petitioner's representatives repeatedly referred to "royalties" (214, 472, 572, 573, 594).

1. On termination Metals reconveys the DeBothezat patents (19).

2. For one year petitioner may require Metals (on paying its expenses) to assign patents or patent applications "covering any new inventions or new discoveries or improvements in the manufacture of the Products" (19). There have been several such patents (F31, 616).

3. On termination Metals returns "such of the plant and equipment" assigned to it "as it may then have on hand" (19-20).

4. For a year after termination petitioner may examine and copy Metals' "books and records" (20).

5. Within four months after termination Metals must pay all royalties accruing before termination (20).

6. After termination Metals' right to use the DeBothezat name ceases (23).

Thus on termination Metals gives up certain rights and retains all others. It keeps its factory, raw materials, work in process and orders. It keeps all new machinery and equipment it has acquired, its good will, its own name and all trademarks and trade names it has developed.

Likewise Metals retains after termination the right—which it always had—to make and sell fans not infringing outstanding patents.

The Proceedings Below

The Court of Appeals has outlined the history of the litigation (631-632). While the action continued, petitioner received about $3,000 in royalties each month. It used every means, therefore, to avoid and delay an adjudication. So successful were its tactics that $70,000 in royalties were paid during pendency of the action down to early 1949 (F30, 615; 428-430).

At the trial petitioner contended that the contract was "perfectly clear" (88), "clear on its face" (158), and unambiguous (168). Nonetheless it submitted parol evidence on its claim that the parties had *orally* agreed that Metals would not stay in the fan business if it terminated the contract. This evidence was offered to show that the contract should be construed as petitioner claims or else reformed so to provide.

Actually the parol evidence made it doubly plain that the contract does not mean what petitioner claims. The contract itself, however, clearly shows that Metals need not quit the fan business after termination. Neither court below found it necessary, therefore, to fall back on the parol evidence to support its interpretation of the agreement.

One might suppose from petitioner's brief that the parol evidence was not passed upon. The fact is otherwise.

Most of the trial was devoted to taking the parol evidence, pro and con. The witnesses' testimony was conflicting. No shred of documentary evidence supported petitioner's claim. On the contrary, between December 1933 and April 4, 1934, seven drafts of the proposed contract were prepared by the parties' lawyers (F13-21, 609-612),

but none—not even the four drafts of petitioner's counsel —contained any reference to the supposed oral agreement (F25, 613). At one time, indeed, petitioner's lawyer (and vice-president) suggested that Metals make such an agreement, but the suggestion was spurned (F22, 612; 554-555).

During oral argument it was apparent that the trial court did not credit petitioner's story. At the last minute, therefore, petitioner argued that the court should simply omit findings on the issues raised by the parol evidence. Of course the judge rejected that suggestion (417).

There are, in fact, voluminous findings on the parol evidence (F10-28, 608-615; F36, 618). The court flatly found that no agreement or representation was ever made—either before or after the contract was executed—that Metals would not make or sell fans after termination (F22, 24-25, 28, 36; 612-614; 618). Thus petitioner's parol evidence was considered and repudiated.

Petitioner's main brief in the Court of Appeals again raised the claim of an oral agreement. But its reply brief expressly withdrew the reformation claim (633). On oral argument, its counsel asked the court to disregard those parts of Metals' brief dealing with the parol evidence, and the reformation issue was again withdrawn. Accordingly, as the Court of Appeals said, "we shall say no more as to it" (633).

POINT I

The contract plainly does not prevent Metals, after termination, from making fans which do not infringe valid patents.

The Court of Appeals discussed petitioner's tenuous arguments so fully (633-641) that only a few points need be added.

1. Had no contract been made, Metals would have been free to make any unpatented fans it wished. Once a DeBothezat patent expired, moreover, Metals would have been entitled to make the fans formerly covered thereby, for the patent laws "dedicate to all the public the ideas and inventions embodied in an expired patent." *Scott Paper Co.* v. *Marcalus Mfg. Co., Inc.*, 326 U. S. 249, 256.

What petitioner argues, therefore, is that after termination Metals is worse off than if it had never made the contract. Metals is supposed to have foreclosed itself from making any fans whatever except under the contract—to have surrendered, for all time, rights which the whole world enjoys, and which Metals would have had if the contract had never been made.

Such a sweeping restraint on Metals' freedom to compete would be so extraordinary (to say nothing of its illegality) that one would naturally expect it to be expressed in the plainest language. Business men represented by experienced counsel do not leave such an onerous restriction to fine-spun argument.

2. Particularly is that so because any competent lawyer would know that no such restriction would exist in the ab-

sence of an express covenant. For it has long been settled law that all disabilities arising out of a patent license or agreement disappear when the contract ends.

When the contract is over, the former licensee or assignee will not be enjoined from making the self-same goods as before, or compelled to pay for doing so, as long as he infringes no patent. That is true whether he terminates the contract himself,[2] or it is forfeited for his breach,[3] or it ends in some other way.[4]

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[2] See, *e.g.*, *Antisdel* v. *Chicago Hotel Cabinet Co.*, 89 Fed. 308, 311-312 (7 Cir.), modified on rehearing, 90 Fed. 828; *Stimpson Computing Scale Co.* v. *W. F. Stimpson Co.*, 104 Fed. 893, 895 (6 Cir.); *Bituminous Products Co.* v. *Headley Good Roads Co.*, 2 F. 2d 83, 86, affd. on opinion below, 14 F. 2d 607 (3 Cir.); *Demco, Inc.* v. *Doughnut Mach. Corp.*, 62 F. 2d 23, 26 (4 Cir.), cert. den. 288 U. S. 605; *Miehle Printing Press & Mfg. Co.* v. *Publication Corp.*, 166 F. 2d 615, 618 (7 Cir.); *Blain* v. *Sullivan-Waldron Products Co.*, 78 F. Supp. 661, 662, affd. on opinion below, 172 F. 2d 221 (3 Cir.); *Howe* v. *Atwood*, 47 F. Supp. 979, 990; *Dutchess Tool Co.* v. *Kolb*, 44 N. Y. App. Div. 624; *Crossley* v. *Dixon*, 10 H. L. Cas. 293, 308; *Redges* v. *Mulliner*, 10 R. P. C. 21.

[3] See, *e.g.*, *Dueber Watch-Case Mfg. Co.* v. *Robbins*, 75 Fed. 17, 26 (6 Cir.); *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901, 902 (6 Cir.); *General Motors Corp.* v. *Rubsam Corp.*, 65 F. 2d 217, 222-223 (6 Cir.), cert. den. 290 U. S. 688; *N. S. W. Co.* v. *Wholesale Lumber & Millwork, Inc.*, 123 F. 2d 38, 41 (6 Cir.); *Pelham* v. *Edelmeyer*, 15 Fed. 262, 264 (C. C. S. D. N. Y.); *Hyatt* v. *Ingalls*, 124 N. Y. 93, 105; *Mark* v. *Hyatt*, 135 N. Y. 306, 309; *Saltus* v. *Belford Co.*, 133 N. Y. 499, 504; *Henderson* v. *Dougherty*, 95 N. Y. App. Div. 346, 351-352; *Schalkenbach* v. *National Ventilating Co.*, 129 N. Y. App. Div. 389, 393-394; *Electric Regulator Mfg. Corp.* v. *American Mechanical Laboratories, Inc.*, 225 N. Y. App. Div. 37; *DeMille Co.* v. *Casey*, 121 N. Y. Misc. 78, 86-88.

[4] See, *e.g.*, *Union Switch & Signal Co.* v. *Johnson*, 72 Fed. 147, 152 (3 Cir.); *International Burr Corp.* v. *Wood Grinding Service, Inc.*, 34 F. 2d 905, 907 (2 Cir.); *Paine & Williams Co.* v. *Baldwin Co.*, 113 F. 2d 840 (6 Cir.); *Measurements Corp.* v. *Ferris Instrument Corp.*, 159 F. 2d 590, 593 (3 Cir.); *Brusie* v. *Peck Brothers & Co.*, 135 N. Y. 622, 625-626; *Denise* v. *Swett*, 142 N. Y. 602, 605.

Clear, unequivocal language must therefore be used to deprive a contracting party of his right, after termination, freely to make goods infringing no valid patent.[5] Of course that right persists after the contract ends, unless it is expressly abridged. To argue (Pet. Br., pp. 8, 13) that the right is lost unless expressly preserved is frivolous. It would be just as unsound to argue that, because petitioner's right to make unpatented fans after termination is not expressly preserved, it may not make such fans when the contract ends.

3. Indeed, when a party's right to compete was to be restricted after termination of the contractual relationship, this very agreement said so unequivocally.

The contract obliged Metals to employ for a year Dr. DeBothezat (petitioner's president and the inventor of the DeBothezat patents) under an agreement called Schedule D (15), which provided (29):

> "Dr. DeBothezat further agrees that, provided and while said agreement [*i.e.*, the main contract] is in force and while he is in the employ of the Metals Corporation, *and in any other event for five years after the date of the termination of such employment*, he will not, directly or indirectly, engage in the busi-

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[5] See, *e.g.*, *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901 (6 Cir.); *Picard* v. *United Aircraft Corp.*, 128 F. 2d 632, 637 (2 Cir.), cert. den. 317 U. S. 651; *Pennington Engineering Co.* v. *Houde Engineering Corp.*, 136 F. 2d 210, 216 (2 Cir.); *Measurements Corp.* v. *Ferris Instrument Corp.*, 159 F. 2d 590, 593 (3 Cir.); *Miehle Printing Press & Mfg. Co.* v. *Publication Corp.*, 166 F. 2d 615, 618 (7 Cir.); *Conmar Products Corp.* v. *Universal Slide Fastener Co., Inc.*, 172 F. 2d 150, 156 (2 Cir.); *De Cew* v. *Union Bag & Paper Corp.*, 57 F. Supp. 388, 403-404.

> ness of manufacturing or selling fans or impellers that are competitive with any products manufactured or manufacturable pursuant to or under any of the inventions, applications or Letters Patent referred to in said agreement."

Thus if the parties intended to prevent Metals from making fans, after termination of the contract, apt words lay right at hand. They had only to say that "after the termination of this contract, Metals will not, directly or indirectly, engage in the business of manufacturing or selling fans or impellers." They said nothing of the sort.

4. Petitioner relies on the following sentence (23):

> "Metals Corporation further agrees that the New Company will not engage in the manufacture and sale of any products which compete with the Products to be manufactured and sold hereunder."[6]

This covenant manifestly was intended to prevent diminution of the royalties which petitioner would receive, while the contract lasted, on the sale of the Products made under the agreement. Of course, like every other provision in the contract not specifically preserved after termination, this covenant dies with the contract, for "after such termination all parts of the contract would cease to have further operation." *Johnson* v. *Union Switch & Signal*

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[6] "Products" is a word of art in the contract, designating all fans and other products made under Dr. DeBothezat's inventions (8). "New Company" means "a new corporation to be formed, under the name of DeBothezat Impeller Corporation or such other name as Metals Corporation may select, hereinafter referred to as the New Company" (21-22). It is utterly different from Metals.

Co., 29 N. E. 964, 965, reported as memo only in 129 N. Y. 653.[7]

Indeed, the covenant cannot apply after termination. No "Products" could "be manufactured and sold hereunder" after termination of the contract, and no "products" could "compete with" such Products thereafter.

Thus petitioner is forced to rewrite the covenant by adding to, and changing, its language:

> "Metals Corporation further agrees that, *after termination of this agreement, Metals Corporation* will not engage in the manufacture and sale of any products *identical with or competitively similar* to the Products *which were formerly* to be manufactured and sold hereunder."

That is not construction; it is complete revision.

Little need be added to the Court of Appeals' analysis. After termination of the contract, Metals "could not further proceed *under* it," *Hyatt* v. *Ingalls*, 124 N. Y. 93, 105, and "cannot be said to be manufacturing *under* the contract" *Schalkenbach* v. *National Ventilating Co.*, 129 N. Y. App. Div. 389, 393. "Any future manufacture of the patented article could not be *under* the license," *Saltus* v. *Belford Co.*, 133 N. Y. 499, 504, and articles falling within the patents would be made "not *under* the patent but in hostility to it," *Marston* v. *Swett*, 82 N. Y. 526, 534.

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[7] For other applications of this principle to royalty contracts see, *e.g.*, *K-W Ignition Co.* v. *Temco Electric Motor Co.*, 243 Fed. 588, 590 (6 Cir.), cert. den. 260 U. S. 746; *Goodwin* v. *Camp*, 295 Fed. 785, 791-792 (6 Cir.); *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901, 902 (6 Cir.); *Blain* v. *Sullivan-Waldron Products Co.*, 78 F. Supp. 661, 662, affd. on the opinion below, 172 F. 2d 221 (3 Cir.); *Wilde* v. *Smith*, 8 Daly (N. Y.) 196, 208.

In *Stimpson Computing Scale Co.* v. *W. F. Stimpson Co.*, 104 Fed. 893 (6 Cir.),[8] the licensee had "the right to determine this contract, and their obligation thereunder . . . by giving six months' notice in writing . . . of their intention to discontinue the manufacture and sale of such scales under this contract." The court held that, after the notice was given, the licensee had a perfect right to keep making the same scales as before unless he infringed some outstanding patent. It said (p. 895):

> "We think it gave the licensee the right to determine the contract by giving the prescribed notice of its intention not to proceed further under the contract after the time stated in the notice shall expire. *The manufacture and sale of such scales 'under this contract' would then cease. Effect must be given to all the language of a contract where possible, and we see no difficulty in applying this rule of construction here. There was nothing in the contract which imposed a further disability upon either party after it should have been brought to an end by the exercise of a right reserved therein.*"

5. Petitioner argues that it would have been "foolish" to "have given away its business . . . on such terms" (Pet. Br., p. 7). The short answer is that Metals would have been doubly foolish to have given up, forever, its right to make fans except under the contract, for the dubious privilege of trying to revive the bankrupt, moribund DeBothezat enterprise. But the argument is unsound.

Petitioner gave nothing away. It made an excellent bargain under which it has received over $250,000 without

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[8] This case was recently cited in *Tams-Witmark Music Library, Inc.* v. *New Opera Company, Inc.*, 298 N. Y. 163, 173.

lifting a finger. It made sure that on termination it would both get back the DeBothezat patents and acquire new patents which it had no part in devising. Thus its competitive position would not merely be maintained but enhanced. To compensate for any possible loss of the "knowledge of its business" it ensured itself access to all Metals' "books and records" for a year after termination. Any possible "impediment" which might be "caused by the interruption of its operations"—which had all but ended anyhow—was evidently deemed trifling compared to the manifold benefits which petitioner expected to (and did) derive from the contract. The plea for sympathy is simply specious.

6. How misguided is petitioner's reliance on *Cammack* v. *Slattery & Bro., Inc.*, 241 N. Y. 39, was pointed out below (640-641).

Cammack owned an unpatented invention for radiators which he had never disclosed. While he kept it to himself no one could use it. To induce him to disclose it, Slattery agreed to pay him "a royalty of ten per cent of the selling price of all . . . radiators, manufactured by them, their heirs, assigns or successors" (209 App. Div. 877, 878). That obligation had no time limit. The contract had no termination clause. Slattery sent a notice saying it was terminating, but kept on making the radiators. Of course it was held liable for the promised royalties.

(a) The lower courts thought that Slattery could not terminate. The Court of Appeals preferred to say that Slattery had "elected to continue to operate" under the contract (p. 47). "If we assume, as I think is the fact,

that defendant might have terminated its contract at any time and did serve purported notices of intention so to do, the answer is that *it did not as a matter of fact terminate the contract* but continued to manufacture and sell radiators" (p. 45).

But here the contract expressly provides how and when it can be terminated. After one year Metals can terminate merely by sending a notice of termination. As pointed out in *New York Telephone Co.* v. *Jamestown Telephone Corp.*, 282 N. Y. 365, where (as here) the contract expressly confers the right to terminate on notice, the *Cammack* case is quite inapplicable. There notice of intention to terminate was "accompanied by acts inconsistent with any intention to terminate" (p. 373), and, as Chief Judge Lehman added (pp. 373-374):

> "Notice of intention to terminate a contract is an empty gesture where it appears that the intention is to terminate only the obligation imposed by the contract and not the right to benefits derived from the contract, for the contract gives no right of partial revocation. So we held in that case, but *the rule has no application here for here on the date when the notice became effective according to the terms of the contract, nothing had been said or done which rendered the notice ineffective. Then the contract was at an end.*"

So here, when the notice becomes "effective according to the terms of the contract," the entire agreement is "at an end"—both the "obligation imposed by the contract" and the "benefits derived from the contract."

(b) Since the *Cammack* contract was silent on termination, the court had to speculate what the parties prob-

ably would have said on that subject if they had considered it. It thought it was fair to imply that Slattery should not be compelled to make the radiators but, if it chose to do so, should abide by its unlimited promise to pay royalties "such as it had agreed to pay" (241 N. Y., at p. 45). Otherwise Slattery would keep everything and give up nothing.

Unlike Slattery, however, Metals never "agreed to pay" royalties forever. On the contrary, the obligation to pay royalties ceases on termination: "Metals Corporation shall not be liable for any payment . . . accruing after the period ending upon such termination" (19). That language would be pointless if Metals were precluded from making fans on termination. It makes it plain that Metals is free to make fans after termination without incurring any contractual liability to petitioner.

(c) Furthermore, Metals does not keep everything and give up nothing on termination. It is absurd to argue that Metals claims "a supposed alternative to pay or not to pay for what has been received" (Pet. Br., p. 17).

On termination Metals surrenders its immunity from infringement suits, gives up the DeBothezat name, and so on. It also loses the benefit of petitioner's continuing covenants to disclose new inventions (11) and to refrain from competition (23). In fact, Metals relinquishes "benefits" which were not "derived from the contract," *e.g.*, its improvement patents.

Thus this contract—unlike the *Cammack* agreement—specifies the "benefits" which Metals must relinquish on termination. Implications as to what the parties might have thought equitable, if they had been silent, are therefore beside the point. The contract itself specifies exactly what rights Metals must equitably give up on termination.

(d) Finally, the right which Slattery was trying to exercise was truly a "benefit derived from the contract" —the common-law right to use an undisclosed secret invention. But the rights which Metals wants to enjoy after termination are not "derived from the contract" at all.

Metals wishes to make fans which do not embody the invention of any DeBothezat patent. Metals always had that right; it did not come from the contract. It also wishes to make fans embodying the inventions of expired patents. Far from being derived from the contract, that right is conferred by the patent laws.[9]

In short, the *Cammack* case is wholly inapposite from start to finish. It involved utterly different questions under an utterly different contract.

The agreement is quite clear—Metals is free to make fans, after termination, which do not infringe patents then subsisting.

POINT II

The four "defenses" pleaded by petitioner were clearly insufficient.

Certain matters having nothing to do with Metals' right to terminate, or to make unpatented fans after termination, were pleaded by petitioner both as counterclaims and "defenses." At a pre-trial conference the District Court held that these counterclaims were insufficient as "defenses" (75-80). The Court of Appeals agreed (641-645). Petitioner cites no case even indicating that applicable local decisions are in conflict.

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[9] *Scott Paper Co.* v. *Marcalus Mfg. Co.,* Inc., 326 U. S. 249, 255-256.

A. The Four "Defenses."

Petitioner's discussion goes so far afield that it is noteworthy to see just what its "defenses" actually said.[10]

No "irreparable injury" was charged—though it would be immaterial if alleged. On the contrary, these four "defenses" alleged specific money damages. Nowhere was it averred that the acts charged would "impair" petitioner's "capacity to resume operations" (Pet. Br., p. 21). Certainly there was no allegation that the usual remedies provided by law would be ineffectual to afford complete relief.

1. The second "defense" alleged that Metals had "converted to its own use or destroyed the leased equipment referred to in paragraph Third and Schedule B of said agreement of April 3, 1934, to the damage of defendant in the amount of $100,000" (56), and argued that Metals should not be allowed to terminate "until [it] turns over to defendant equivalent equipment" (56-57).

While the contract does *not* require Metals "to return the leased machinery in the event of cancellation" (Pet. Br., p. 21)—on the contrary, it was to be redelivered in

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[10] Petitioner faintly suggests that sufficiency of the "defenses" should not have been resolved at a pre-trial conference (Pet. Br., p. 20). It is enough to say that (a) it is completely immaterial that the "defenses" were held insufficient at a pre-trial conference, rather than at motion part or at the trial, (b) of course the sufficiency of "defenses" may be determined at a pre-trial conference, as shown by the cases cited below (72) and in 3 Moore's Federal Practice (2d Ed. 1948), pp. 1105, 1111, 1121-1123, and (c) the District Court properly acted under Rule 16 to simplify the issues, speed the trial and lift the case from the procedural morass in which petitioner had bogged it down (67-69, 71-72).

1940 unless Metals bought it for $1 (13-14)[11]—it would make no difference if it did. The leased equipment was second-hand even in 1934. It was bound to wear out. In 1940 it could be bought for $1. Actually petitioner had so little interest in the leased equipment that it did not sue until 1948. If the worn-out remnants would now have any useful value, damages would afford petitioner complete relief.

2. The third "defense" avers that at some unstated time, by some unstated act, Metals "violated its contractual obligation to use the name DeBothezat in the promotion and sale of said products to the damage of defendant in the amount of $50,000" (57).

For all that appears, the name—as a result of Metals' extensive use of it (603; Exs. D, W)—is a thousand times better known now than in 1934. But if petitioner ever supposed that Metals was not using the name as required, it had only to apply for injunctive relief. None was sought in the answer. None has been sought to date.

3. Petitioner suggests that the certified audits alluded to in its fourth "defense" were intended to enable it to "plan in advance its campaign to reestablish its business" (Pet. Br., p. 21). Actually the audits have nothing to do with "reestablishment" of petitioner's activities after termination.[12] They simply enabled petitioner to have

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[11] Moreover, Metals has no duty to redeliver on termination "any part of such plant and equipment which it shall have used or disposed of or which shall have been destroyed or discarded, whether or not by [its] negligence or fault" (20).

[12] That subject is taken care of by the totally different provision affording petitioner access, for one year after termination, to Metals' "books and records" (20).

Metals' certified public accountants check, annually, on Metals' own monthly statements of "net sales and receipts from licenses" (18).

But if petitioner was dissatisfied with the audits prepared by Metals' certified public accountants, and thought that the $10,000 damages claimed (57) would not afford sufficient relief, it had ample remedies at hand. It had only to sue to compel fuller reports to be furnished. Or petitioner could—and still can—have an audit made by independent accountants (18). No such relief has ever been sought.

4. The sixth "defense" merely says that Metals "failed to use its best efforts to promote the sale of said products, to defendant's damage in the amount of $500,000" (58). It does not even claim that the unrevealed acts affect Metals' right to terminate.

Before the contract, petitioner's sales had dwindled to $58,000 in 1933, and it was steadily losing money (F8, 608). Under the contract its royalties have been paid on net sales which, for years, have been over $1,000,000 (605). But if petitioner had ever supposed that Metals was not using its best efforts to promote sale of the Products, it had ample legal measures to remedy the situation.

Indeed, if petitioner had ever thought—as it now argues—that the supposed breaches were of any consequence, it would have taken prompt action to remedy the situation long ago. As far back as 1946, it knew that Metals intended to terminate and keep on in the fan business (F33-34, 617). Petitioner did nothing. When this action was brought, indeed, it claimed that there was no dispute to resolve (631-632).

Certainly, if the imaginary evils which petitioner now conjures up had been regarded as of moment, at the very least it would have asked for injunctive relief when its answer was filed. It chose not to do so. Over two years have gone by since then. No injunctive relief has yet been sought.

The assertions that petitioner "has been here stayed from pressing its counterclaims" (Pet. Br., p. 24), and that the courts enjoined it "from seeking equitable relief" (Pet. Br., p. 26), are unworthy. No such stay or injunction has ever been granted or even applied for. The decision not to invoke the usual equitable remedies was petitioner's own. Doubtless it thought that its inaction would lend some color to its present arguments.

Possible breaches of the contract afford no ground for revising the contract to extinguish or limit Metals' absolute right to terminate and keep on in the fan business.

B. The Acts Charged Do Not Affect Metals' Right to Terminate.

An absolute power of termination is not, as petitioner seems to think, a reward for due performance. It is simply "a right given by contract to limit its life by notice that the contract will terminate at a time fixed by the notice." *New York Telephone Co.* v. *Jamestown Telephone Corp.*, 282 N. Y. 365, 372.

The contract specifies what happens if Metals "shall fail or neglect to keep or perform any of the terms, covenants and conditions of this agreement on its part to be performed" (20). Breaches do *not* suspend or extinguish

Metals' right to terminate. Petitioner may notify Metals "wherein it is claimed to have been in default" (21). If Metals does not dispute the default, and it continues for thirty days, petitioner may "terminate this agreement and all rights granted hereunder" (21).[13] Clearly all Metals' "rights granted hereunder" (including its absolute right to terminate) remain alive, despite breaches, until the contract is terminated by the prescribed procedure.

Thus—even though possible breaches by Metals were contemplated when the contract was executed—the "defenses" try to rewrite the contract by inserting limitations on Metals' right to terminate which the parties chose not to include.

Petitioner cites no New York case justifying such drastic surgery on a contractual right of termination.

1. *Cammack* v. *Slattery & Bro., Inc.*, 241 N. Y. 39 (Pet. Br., p. 22), is utterly irrelevant. The court did not even suggest that a person would be debarred from exercising a right to terminate, expressed by contract, because of his supposed prior breaches. It merely held, as already seen, that defendant had "elected to continue to operate" under the contract (p. 47).

2. *Lipman* v. *Niagara Fire Ins. Co.*, 121 N. Y. 454 (Pet. Br., p. 23), contains an *obiter dictum* that a company which has been paid to insure against a risk cannot cancel the policy when it knows that the risk is on the very verge of maturing and the insured cannot obtain other insurance

[13] If Metals disputes the claimed default in good faith, the thirty days do not "run until a final determination against such contention shall have been made by a tribunal of competent jurisdiction" (21).

before it does mature.[14] Obviously the dictum has nothing to do with this case. Besides, in a later decision an insurance company was held free to cancel the policy, even though it had previously breached its obligations, and even though termination would cause the insured irreparable injury because he had become uninsurable. *Jones* v. *Commercial Travelers' Mut. Accident Assn.*, 201 N. Y. 576, where the Court of Appeals refused to apply the *Lipman* dictum, which had been relied on by the lower court, 114 N. Y. S. 589.

3. *Friedman* v. *Connecticut General Life Ins. Co.*, 251 App. Div. 292, leave to appeal denied, 275 N. Y. 649 (Pet. Br., p. 23), far from supporting petitioner, followed the *Jones* case and allowed the insurance company to cancel the policy.

Actually petitioner's argument is contrary to established principles of local law. Repeatedly the New York courts have refused to make an entirely new agreement for the parties by importing restrictions into an absolute power to terminate.

Thus, the right to terminate may be exercised regardless of purpose or motive,[15] or the serious effect of cancella-

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[14] The point did not arise in the *Lipman* case at all. Indeed, the court held that the termination notice was perfectly valid and effective when given, although it afforded the insured no time at all to obtain new insurance (121 N. Y., at p. 461).

[15] See *e.g.*, *International Life Ins. & Trust Co.* v. *Franklin Fire Ins. & Trust Co.*, 66 N. Y 119, 123; *Friedman* v. *Connecticut General Life Ins., Co.*, 251 App. Div. 292, 293, leave to appeal denied, 275 N. Y. 649; *Biber Bros. News Co., Inc.* v. *New York Evening Post, Inc.*, 144 Misc. 405, 408; *Okst* v. *Metropolitan Life Ins. Co.*, 50 N. Y. S. 2d 919, 922; *MacDonald Bros., Inc.* v. *Halston*, 63 N. Y. S. 2d 909, 911-912.

tion on the other contracting party.[16] Similarly, breach by a party does not affect his exercise of that right.[17] Thus the measure of damages for breach by wrongful repudiation of a contract is only the amount which would have been payable thereunder if the right to terminate had been duly exercised.[18] That is true even if suit based on a prior breach was pending when the wrongful repudiation occured.[19] Nor is exercise of the right to terminate affected by the fact that damages for existing breaches are incapable

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[16] See, *e.g.*, *Chatham Plan, Inc.* v. *Clinton Trust Co.*, 246 App. Div. 498, 499, app. dismissed, 272 N. Y. 497; *Stanley* v. *Chris-Craft Corp.*, 21 N. Y. S. 2d 898, affd. without opinion, 259 App. Div. 1036; *Randall* v. *Michelin Tire Co.*, 137 Misc. 570, 571.

[17] In fact, *Mason* v. *Electrol, Inc.*, 292 N. Y. 482, held that, where the agreement so purports to provide, the breach can actually result in the termination of the contract. The court rejected the argument that the breaching party should be "estopped from asserting its own default as a ground for extinguishment of its obligation" (p. 487).

[18] So, if an employer reserves a right to terminate on notice, a wrongfully discharged employee can recover only the wages payable during the period of notice. See, *e.g.*, *Watson* v. *Russell*, 149 N. Y. 388, 392; *Barth* v. *Addie Co., Inc.*, 271 N. Y. 31, 35; *Gallo* v. *Mayor, etc. of New York*, 15 App. Div. 61, 64; *Inglesi* v. *Hickson, Inc.*, 195 App. Div. 585, 587; *Robertson* v. *Charles Frohman, Inc.*, 198 App. Div. 782, 787, app. dismissed, 233 N. Y. 530; *Beck* v. *Fybern Holding Corp.*, 238 App. Div. 25, 28; *Bitterman* v. *Gluck*, 256 App. Div. 336, 337. The rule is not confined to employment contracts, but applies to all contracts. *Warth* v. *Liebovitz*, 179 N. Y. 200, 204-205; *Chatham Plan, Inc.* v. *Clinton Trust Co.*, 246 App. Div. 498, 500, app. dismissed, 272 N. Y. 497.

[19] "It is hard to see how that circumstance could add to the value of the contract to the plaintiff or diminish a privilege reserved by the contract to the defendant." *Barth* v. *Addie Co., Inc.*, 272 N. Y. 31, 36; see also *Bogy* v. *Berlage*, 265 App. Div. 249, 251.

of precise computation and therefore irreparable.[20] Likewise it is immaterial that termination by the breaching party would cause irreparable damage.[21]

These rules are perfectly sensible and just. The law provides a contracting party with adequate remedies if he thinks a breach of contract has occurred. Courts cannot appropriately rewrite contracts to deprive a party of a right to terminate without which he would never have made the agreement in the first place. One reason, indeed, why a party reserves the right to terminate is to enable him to end his continuing liability under the contract and thus protect himself against new claims of additional breaches.

Moreover, petitioner's argument runs afoul of a more general principle of New York law. A party affected by a breach of a contract has a choice. He may keep the contract alive and sue for damages and injunctive relief. Or, if the breach is substantial, he may terminate the contract. But he cannot keep part of the contract alive and terminate

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[20] *United States Aluminum Co.* v. *Calvert Lithographing Co.*, 49 Misc. 491, 492 (App. Term), breach by unauthorized misuse of patented inventions; *Motion Picture Trade Directory Co., Inc.* v. *Wallace*, 186 N. Y. S. 80, 82 (App. Term), affd. without opinion, 197 App. Div. 938, breach by failure to return special List deemed so precious that contract provided that defendant had to return it before it could terminate.

[21] *Jones* v. *Commercial Travelers' Mut. Accident Assn.*, 201 N. Y. 576, *supra*, p. 24. The same rule underlies the principle that "Specific performance will not be decreed against a party who has the power of terminating his contractual duty," Restatement of the Law of Contracts, §377; *Wilcox* v. *Williams*, 92 Hun (N. Y.) 250, 252; *Hart* v. *Hart*, 188 App. Div. 283, 284-285. As this court tersely put it, "A court of equity never interferes where the power of revocation exists." *Southern Express Co.* v. *Western North Carolina Rd. Co.*, 99 U. S. 191, 200.

the rest. If he keeps it alive at all, it "exists for the benefit of both parties;" he can no longer use the breach defensively, and his sole "remedy is the recovery, in counterclaim or action, of [his] damages." [22]

Here, despite the alleged breaches, petitioner did not terminate but insisted (and still insists) that the contract be kept alive. Consequently all provisions of the contract —the termination clause included—remain in full force and effect. The decision below to that effect was entirely correct.

C. The Acts Charged Do Not Affect Metals' Right to Make Fans After Termination.

Even more fanciful is petitioner's contention that the alleged breaches affect Metals' right to make, after termination, fans infringing no subsisting patent.

No case is cited which supports this argument. *Russell Hardware & Implement Mfg. Co.* v. *Utica Drop Forge & Tool Co.,* 195 N. Y. 54 (Pet. Br., pp. 24-25), is really opposed to it. There the court held that the exclusive license of a patented staple puller should be cancelled because of the licensee's acts, and it enjoined the licensee from exercising any further rights under the contract. But the licensee was *not* enjoined from making any article whatever

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[22] The quotations are from *Rosenthal Paper Co.* v. *National Folding Box & Paper Co.,* 226 N. Y. 313, 324. For other examples, see *Dalzell* v. *Fahys Watch Case Co.,* 138 N. Y. 285, 290; *Anheuser-Busch Ice & Cold Storage Co.* v. *Reynolds,* 221 App. Div. 174; *Thuman* v. *Clawson & Wilson Co.,* 211 App. Div. 507, 510; *Schulder* v. *Edward R. Ladew Co., Inc.,* 178 App. Div. 458, 462; *Pitts* v. *Jameson,* 15 Barb. (N. Y.) 310, 317.

(patented or unpatented) after the contract ended.[23] On the contrary, the court said that the "*only* adequate relief . . . was to terminate the contract and, thus, to cancel all rights to manufacture *under* the patents;" "annulment of the contract proper" was "the *only* just remedy to be applied" (p. 61).

Numerous other New York cases are contrary to petitioner's contention. *Hyatt* v. *Ingalls,* 124 N. Y. 93, was cited in the *Russell* case (195 N. Y., at p. 62). There a license to make goods under plaintiffs' patent was judicially cancelled because defendants had failed to pay royalties and report sales. Because of these grave breaches, the trial court enjoined defendants from making the patented articles after cancellation. On appeal the injunction was dissolved. It was erroneous because it "restrained the licensees perpetually from manufacturing the patented article without, in express terms, merely forbidding it under the license." *Mark* v. *Hyatt,* 135 N. Y. 306, 309. "Any future manufacture of the patented article could not be under the license judicially rescinded, and must of necessity be either lawful or an infringement over which the court could have no jurisdiction." *Saltus* v. *Belford Co.,* 133 N. Y. 499, 504.

That is settled New York law. Even when the breaches by one party are so serious that the court will cancel the contract, he will not be prevented from making any goods

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[23] The injunction restrained defendant "from further exercise of any of the rights in the business, trade and good will of the Russell staple puller [*i.e.,* plaintiff's patented device], received by it *under said contract or pursuant thereto,* and from using any of the cuts, illustrations and testimonials of the Russell stape puller, *acquired of plaintiff or pursuant to said contract,* in advertising or selling a staple puller" (Record on appeal, fols. 331-333).

whatever after the contract is ended. Once the contractual relationship ends, in short, both parties are equally free to make any and all goods which do not infringe valid patent rights.[24] The Court of Appeals correctly so held.

CONCLUSION

No reason exists why this Court should review the case. The petition is singularly without merit and should be denied.

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[24] Other New York cases to the same effect are cited *supra*, notes 3 and 4. For other examples, see *Hirsh & Schofield, Inc.* v. *Gusmer*, 179 App. Div. 347, 353, affd. without opinion, 226 N. Y. 649; *Redican* v. *Interchangeable Magnetic Sign Co., Inc.*, 162 App. Div. 803, 805; *Lamont, Corliss & Co.* v. *Bonnie Blend Chocolate Corp.*, 135 Misc. 537, 539.